SCHNEIDER CORPORATION ANNUAL REPORT • 1976

OUR COVER: If anyone doubts that Schneider Corporation is not a rapidly-growing, national Canadian company, we invite him, or her, to turn back to the cover for a few moments. Instead of listing the new product lines we have researched and introduced into the market *during the past two years only* — we thought it would be more impressive to group these new products and photograph them. We wanted our shareholders — and other readers — to know that we are a company constantly researching the market and expanding our lines to reflect customer needs and desires.

Financial Highlights

Schneider Corporation

	1976	1975
Sales	**$254,970,000**	$217,018,000
Earnings before extraordinary item	**$4,577,000**	$3,065,000
Per share	**$1.70**	$1.13
Percent of sales	**1.80%**	1.41%
Percent of shareholders' equity	**14.18%**	10.28%
Net earnings	**$3,579,000**	$3,065,000
Per share	**$1.33**	$1.13
Percent of sales	**1.40%**	1.41%
Percent of shareholders' equity	**11.08%**	10.28%
Dividends paid (including tax paid on undistributed income)	**$756,000**	$702,000
Rate per share	**28¢**	26¢
Working capital	**$12,774,000**	$12,000,000
Working capital ratio	**1.95**	1.91
Shareholders' equity	**$32,287,000**	$29,810,000
Per share	**$11.98**	$11.04

Important Dates for Shareholders

Company fiscal year 1977: October 31, 1976, to October 29, 1977 (52 weeks)

Dividend Dates

Payable:
April 15, 1977 — July 15, 1977 — October 14, 1977 — January 13, 1978

Record: (4 weeks prior to date of dividend payable, closest Friday)
March 18, 1977 — June 17, 1977 — September 16, 1977 — December 16, 1977.

Fiscal Quarter endings

1st Quarter: February 19, 1977, containing 16 weeks
2nd quarter: May 14, 1977, containing 12 weeks
3rd Quarter: August 6, 1977, containing 12 weeks
4th Quarter: October 29, 1977, containing 12 weeks

Quarterly Reports are usually ready six weeks from end of quarter. (4th Quarter Reports are delayed because of year-end figures)

Annual Meeting

The Annual General Meeting of shareholders will be held at the Valhalla Inn, Kitchener, Ontario, on Wednesday, April 6, 1977, at 7:30 p.m. Shareholders are cordially invited to attend.

Directors and Officers

Schneider Corporation

DIRECTORS

†**Henry G. Beben**
Waterloo, Ontario
Vice-President, Sales & Marketing
J.M. Schneider Inc.

†***Milton R. Good**
Breslau, Ontario
Chairman of the Board
H. Boehmer Ltd.

J. Ruth Jackson
Kitchener, Ontario

†***Dawson C. Jamieson**
Waterloo, Ontario
Vice-President, Finance & Administration
J.M. Schneider Inc.

***Mervyn L. Lahn**
Executive Vice-President
The Canada Trust Company
London, Ontario

Gordon A. Mackay, Q.C.
Kitchener, Ontario
Senior Partner—Mackay, Kirvan, Guy

***Howard W. Main**
Kitchener, Ontario
Executive Vice-President
Electrohome Limited

†**Kenneth G. Murray**
Bright, Ontario
President
J.M. Schneider Inc.

†**Frederick P. Schneider**
Kitchener, Ontario
Chairman of the Board
Schneider Corporation

Herbert J. Schneider
Kitchener, Ontario
Vice-President, Personnel & Public Relations
J.M. Schneider Inc.

Howard G. Schneider
Kitchener, Ontario
Vice-President & Director of Research & Development
J.M. Schneider Inc.

OFFICERS

Frederick Paul Schneider
Chairman of the Board

Kenneth George Murray
President

Dawson Charles Jamieson
Treasurer

Gordon Alexander Mackay
Corporate Secretary

Anna Grace Hartleib
Assistant Corporate Secretary

HONORARY DIRECTOR
Norman C. Schneider
Past Chairman

HEAD OFFICE
Schneider Corporation
321 Courtland Avenue East
P.O. Box 130
Kitchener, Ontario N2G 3X8

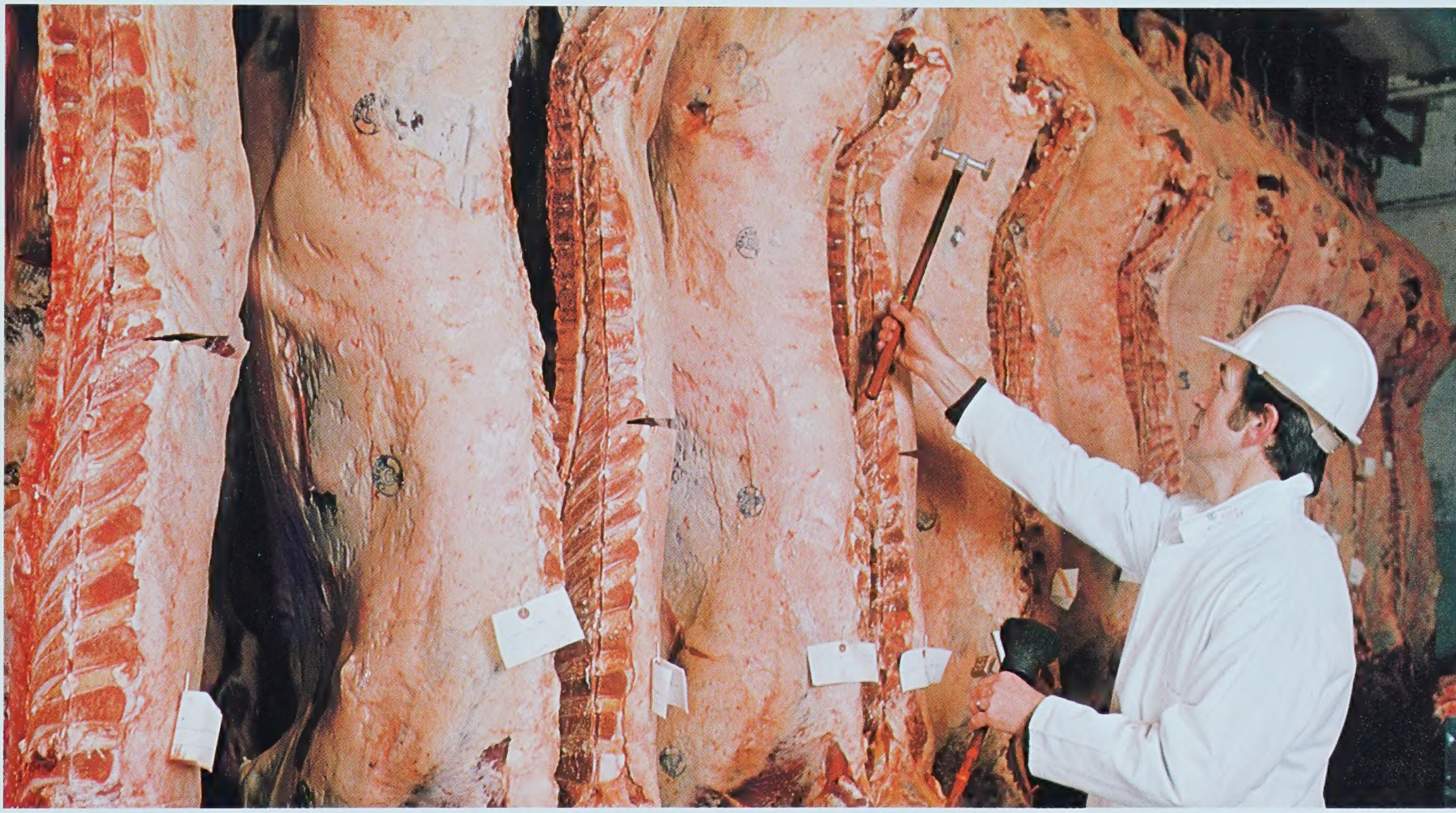
REGISTRAR and TRANSFER AGENT
The Canada Trust Company
Toronto, Montreal, Winnipeg & Vancouver

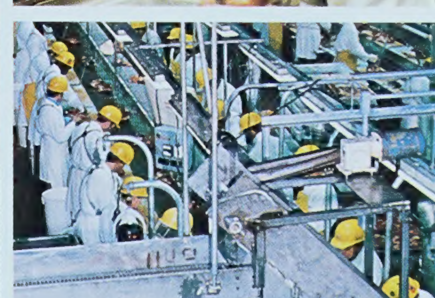
AUDITORS
Thorne Riddell & Co.

SHARES LISTED
Toronto Stock Exchange
Montreal Stock Exchange

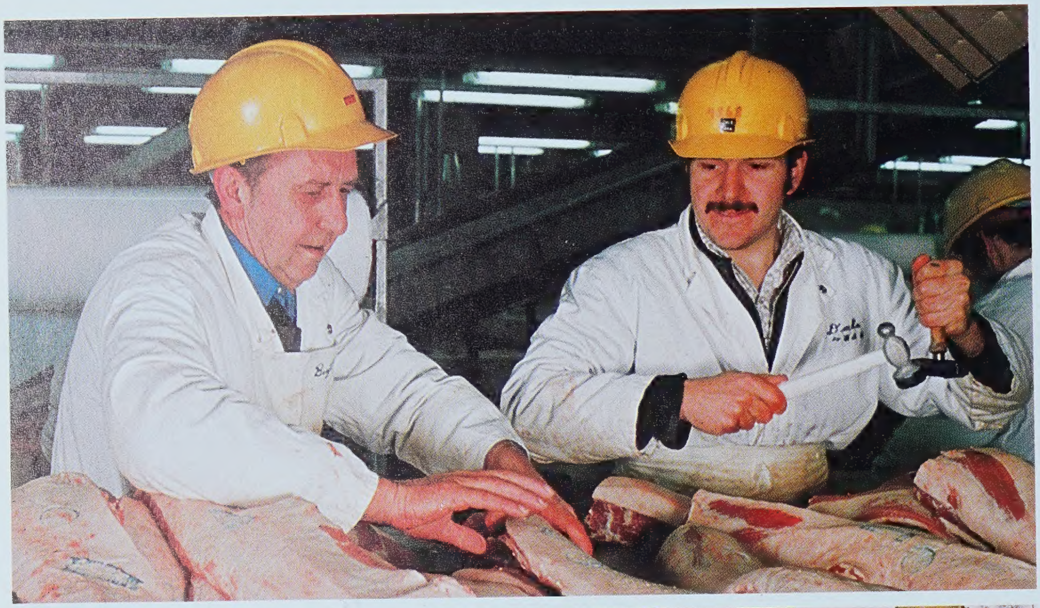
*Member of Audit Committee
†Member of Executive Committee

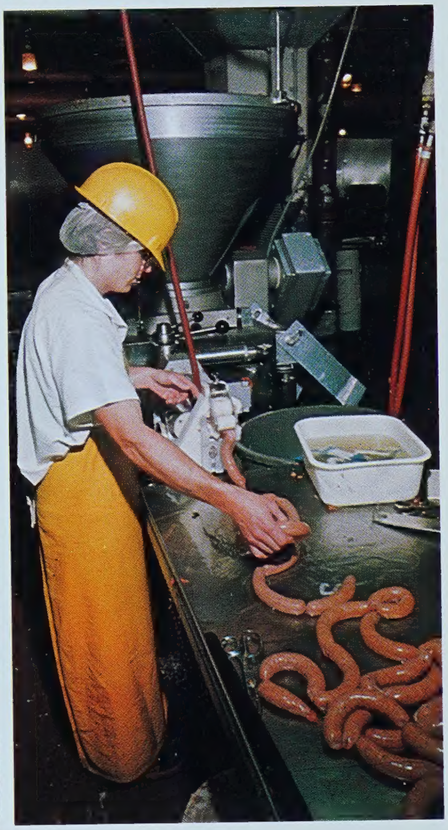
You Can Taste the Difference Quality Makes



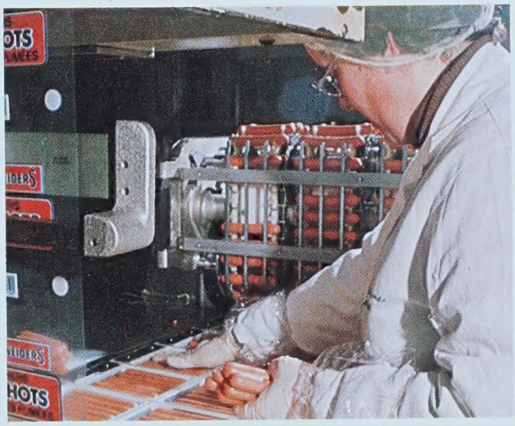


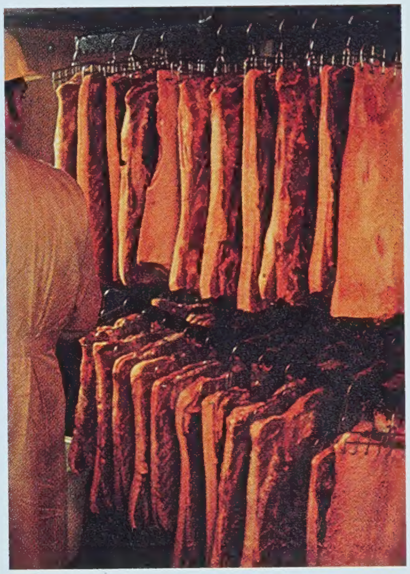
Schneider Corporation

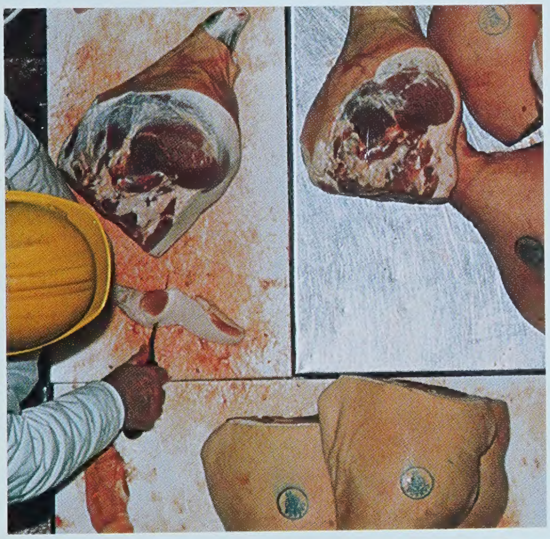




You Can Taste the Difference Quality Makes





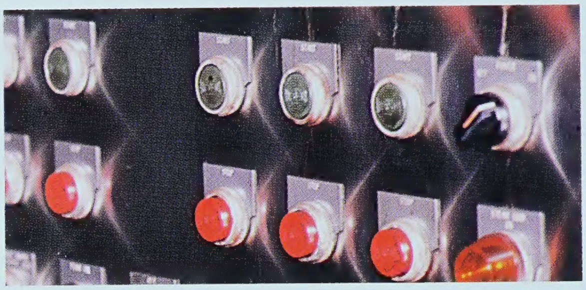


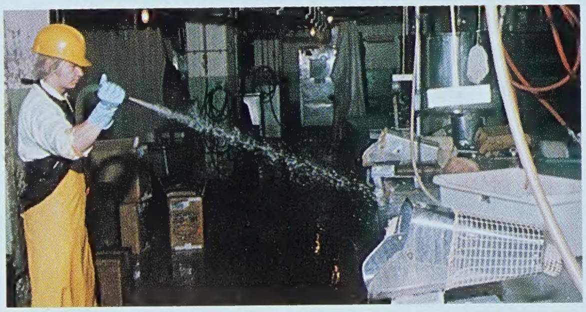
Schneiders offered an unusual and, we hope, a useful learning experience this year to a dozen students enrolled in the photography course at Conestoga Community College in Waterloo Region. The students were invited to photograph our operations and work as a team on an industrial relations project. We thought it would be helpful in their training.

We were delighted with their results and acknowledged their contribution to this report by donating a piece of photographic equipment to the college. These slides, finally selected from a large number of excellent transparencies, are the work of Harry Bleyenberg, Kitchener; Dennis Brandon, Waterloo; Jay Gaudette, North Bay; John Maziarz, Kitchener; Pat Sayer, North Bay; Jim Stevenson, Hespeler; and Lyne Trudeau, Windsor.

You Can Taste the Difference Quality Makes

Schneider Corporation





To the Shareholders of Schneider Corporation

Schneider Corporation

Schneider Corporation, a Canadian-owned national meat-processing company, has three responsibilities: to produce a high standard of quality meat products under sanitary conditions; to continue extending our sales and increasing our share of the market; to maximize profit and so perpetuate the corporation.

On behalf of our fellow directors, we are pleased to report that we met these responsibilities during the year ended October 30th, 1976. This past year, the first year we operated under the name of Schneider Corporation, saw growth in many areas - volume of products sold, number of specific product lines, capital expansion, and size of staff.

In meeting our responsibilities, we were faced with a number of particular problems during the year. The most important was the introduction of the Anti-Inflation Board and its maze of rules and regulations which affected both our profit margins and our ability to generate money from profits for capital expansion. A.I.B. rules caused us to take drastic action through price reductions toward the end of the year in order to reduce excess earnings in certain product areas, while at the same time we were experiencing short falls from allowable earnings in other product areas. This occurred at the very time when we were seeking ways and means for financing a much-needed major expansion as well as improvements to our main Kitchener plant - an expansion, incidentally, which will increase our production of processed product lines and will generate additional employment for about 100 people.

Does this situation of cross-purposes seem absurd to you? It certainly does to those of us who have had to cope as it developed throughout the year and as it reached its climax in the last five or six weeks of fiscal 1976.

The results from our Weidman dry groceries and frozen food operations in Western Canada, acquired several years ago, have not been satisfactory. Our inability to get an adequate return has led us to write off all the goodwill attached thereto. Adding to these, losses carried forward from our previously discontinued Schneider-Hormel canning operation, resulted in a total extraordinary loss of $998,000 which is deducted in arriving at net earnings. While this results in no current actual cash outlay, it does mean that the original investment was not a satisfactory one. Steps are currently being taken to reduce the product line handled by the division and incorporate those lines remaining into the meat division of the company.

Dollar sales for the first time in the company's history were over the quarter billion mark at $255,000,000. Excluding the extraordinary loss brought about by writing off the goodwill previously referred to, net earnings were also at a record high of $4,577,000. This represents 1.80% on the sales dollar and is the second highest in our past 10 years. Our previous high was 1.88% in 1971. The simple average for these 10 years is 1.70%. Before the extraordinary loss, earnings per share amounted $1.70, an increase of 40.5% over the previous high set in fiscal 1974. These excellent earnings are the result of almost maximum use of our production capacity coupled with good control of all fixed and variable expense.

Capital expenditures during 1976 amounted to $4,718,000. Present plans, which are already underway with the construction of a further addition to our Kitchener plant, call for a total expenditure of $25 million in the two year period 1977 and 1978. To provide the necessary funds, we have found it necessary to add to our cash flow during this period by taking on a further $9,000,000 in fixed debt. This takes the form of 20-year debentures placed with several of the larger financial institutions and brings our total long-term debt to about $11,000,000. These funds will largely be spent at the Kitchener plant to increase capacity in the sausage and processed meat lines enabling us to double the production of many of these items.

This additional financing will bring the amount of fixed debt expressed as a percentage of the shareholders' equity to 34%. We do not consider this unduly high considering our past record of sales and earnings and our estimates for the future.

An extra 3¢ dividend was paid in January 1977. This meant a total of 10¢, paid as a 7¢ regular and the 3¢ extra. It is our present intention to continue a regular dividend of 7¢ quarterly through the remainder of fiscal 1977. If this policy is carried through, it would mean a total of 31¢ for 1977 as compared with 28¢ paid during fiscal 1976, 26¢ in 1975, and 30¢ in 1974.

Our present policy is to carry on with regular quarterly dividends supplemented by an extra payment in January based on the then known results from the previous year. When the earnings record seems to justify an increase in the regular quarterly dividend, this will be considered.

As a result of pension improvements for past service, granted through our recent 1976 labour negotiations, about $2,000,000 has been added to our unfunded past service pension obligation for a new total of $4,081,000. The doubling of this obligation reflects the high cost of upgrading our employee pension benefits as we try to offset inflation.

THE EFFECT OF INFLATION

It is necessary to consider how inflation has affected our financial statements if they are to be properly compared with former years.

We estimate that to replace fixed assets (land, buildings, machinery and equipment) would cost at least 50% more on average than their historical cost at present day price levels. Depreciation therefore, if stated at present price levels, would be considerably greater. Consequently, corporate taxes are too high and represent a higher percentage of true or real earnings than the statements indicate.

There is no provision for the inflationary erosion of working capital or the gains or losses arising from holding other assets or liabilities during an inflationary period. Statements must show how well management is doing with the assets they use. But before the actual or true return on investment can be calculated, proper provision must be made to maintain the shareholders' investment undiminished by inflation.

Preliminary work indicates that in our case for fiscal 1976, the real net earnings after tax are substantially lower than these statements indicate if this theory of asset maintenance is employed, as compared with the use of generally accepted accounting principles based as they are on historical data. A massive change in thinking and philosophy, by both accountants and government, is needed before we can again consider financial statements as truly indicative of asset utilization. We are embarking on a two year program to generate more meaningful financial information reflecting the impact of inflation at both the corporate and divisional levels.

SALES AND MARKETING

During the year we had a record volume of sales. They represent an increased market share for all of our important processed meat products.

There were three reasons for this. About six years ago we set out to expand what was then essentially a regional company into a fully national one, distributing and selling from coast to coast. We put a lot of effort into this growth development and this past year we saw much of this come to fruition. Second, we continued to have excellent results from the introduction and acceptance of new products. Third, we have a superior, hard-working sales force who know they are marketing high quality products.

At Schneiders, quality is a state of mind. We have people who *want* to make products that are superior. We have resisted the temptation to lower our quality and cut our prices. Instead, we know, from our growing sales over the past few years, that consumers want food products of consistently high quality.

Our products are now being sold in more stores than ever before and also over a wide geographical area. We are now present in virtually every major market in the country. During 1977 we will strive to improve our customer service across Canada and continue to expand in our traditional market in Ontario.

PRODUCTION

We continue to emphasize central control of all aspects of our business. The Kitchener plant employs more than 75% of all our employees. Our major slaughter facilities for beef, pork and poultry, as well as our major manufacturing facilities for sausage and processed pork products are located in Kitchener. Three plants are located in Winnipeg. Two of these produce specialized sausage products and the third slaughters pork and beef. A plant in Burnaby, British Columbia, produces fresh sausage for the British Columbia market. We operate a cheese processing and aging plant in Wellesley, Ontario, as well as a cooked chicken and meat pattie facility in Ayr, Ontario. In addition, we find it necessary to purchase large quantities of dressed carcasses, cuts and boneless meat for use in our processing operation.

With the completion of the current plant expansion which should be fully operational by mid 1978, our Kitchener site will be virtually fully utilized. Recognizing this fact and acknowledging that there is a continuing demand for our product, we are currently engaged in assembling information so that we can effectively plan for the anticipated future growth of the corporation.

EMPLOYEE RELATIONS

Our most important asset, one which is not adequately reflected in our financial statement, is our people. The quality of our products and the growth in our volume of processed meats testify to the hard work and loyalty of all our employees. We wish to thank them all for their considerable contribution to the company in fiscal 1976. We know that our sudden growth — from regional to national processor — has strained our capacity in a number of areas. Growing pains do sometimes cause stresses. Our move in June into our new office building has much improved working conditions for office staff. Our current plant expansion will ease the strains on the production side. We had planned to a growth year, but our growth exceeded our expectations. Frankly, we're a very busy company.

During the year, our labour contracts were re-negotiated and wages and benefits were increased, within the limits allowed by the A.I.B. So too, were salaries of office and sales staff.

Schneider Corporation ended the fiscal year with a total of 2,728 full-time employees, an increase from 2,508, or 8.7% over the previous year.

Our employee relations, in which we have always prided ourselves, continues to be good. Fourteen new members were added to our 25-Year Club to bring the total currently to 300.

We continue to emphasize our policy of promoting from within. As an example of this, during the year forty-one people were promoted into new supervisory and management positions, all but one from inside the company.

THE FUTURE OUTLOOK

The A.I.B. casts a long and ominous shadow over the next two years. The profit margins which will be allowable to us will not be reflective of any changes in product mix which have been made during the 1976 or which may be made in the next two years. Our best estimates on volume of sales and allowable profit for 1977 indicate little possible improvement in net earnings as compared to 1976. This limitation of our cash flow seems to us a ridiculous way of fighting inflation.

It is difficult to justify, in the face of these regulations, the large investment program which we have presently embarked upon and which makes sense only if and when the controls are lifted. We think it is tragic that the government finds it necessary to restrict this needed flow of funds for increased capacity and plant modernization. It is indeed a paradox when greater capacity and higher labour productivity are thus stifled when seemingly they are most needed. The resumption of normal economic growth requires stimulating, rather than penalizing, capital formation.

During the control period, we will continue to manage the business to the best of our ability. Our information systems, which provide the basis for decision, will be further developed. Our production systems will be expanded and improved so as to reduce cost while maintaining quality standards. Our objective will be to serve our customers well and protect the investment of our shareholders.

Kenneth G. Murray
PRESIDENT

F.P. Schneider
CHAIRMAN

1976 Sales Dollar Analysis

COST

71.5¢ MATERIALS ($182,327,000)
Livestock, Dressed Meat, Ingredients, Food Products, Packages & Cartons

16.5¢ EMPLOYEES ($42,084,000)
Wages, Benefits & Bonuses

8.9¢ OPERATING EXPENSES ($22,694,000)
Supplies, Utilities, Business Services, Selling, Administration, Maintenance, Depreciation & Distribution

1.3¢ INCOME TAXES ($3,288,000)
Federal & Provincial

1.4¢ PROFIT ($3,579,000)
0.4¢ for Dividend Payments, 1.0¢ Retained in Business for Continuous Operations & Future Growth

0.4¢ INTANGIBLE WRITE OFF ($998,000)

Consolidated Statement of Earnings

Schneider Corporation

Year Ended October 30, 1976	1976	1975
	(in thousands)	
Sales	**$254,970**	$217,018
Expenses		
Raw materials	**172,007**	148,087
Packaging materials	**10,320**	7,965
Manufacturing	**39,558**	32,627
Marketing and distribution	**16,892**	15,339
Administrative and general	**6,066**	5,346
Interest on long term debt	**182**	180
Depreciation	**2,080**	1,864
	247,105	211,408
Earnings before income taxes and extraordinary item	**7,865**	5,610
Income taxes	**3,288**	2,545
Earnings before extraordinary item	**4,577**	3,065
Write off of intangible assets (note 4)	**998**	
Net Earnings	**$ 3,579**	$ 3,065
Earnings Per Share		
Earnings before extraordinary item	**$1.70**	$1.13
Extraordinary item	**.37**	
Net Earnings Per Share	**$1.33**	$1.13

Consolidated Statement of Retained Earnings

Schneider Corporation

Year Ended October 30, 1976	1976	1975
	(in thousands)	
BALANCE AT BEGINNING OF YEAR	**$21,020**	$18,657
Net earnings	**3,579**	3,065
	24,599	21,722
Dividends paid on		
Class B preference shares	**508**	434
Class C preference shares including tax paid on undistributed income	**142**	169
Common shares	**106**	99
	756	702
Dividends payable (note 5)	**269**	
	1,025	702
BALANCE AT END OF YEAR	**$23,574**	$21,020

Consolidated Statement of Changes in Financial Position

Schneider Corporation

Year Ended October 30, 1976	1976	1975
	(in thousands)	
WORKING CAPITAL DERIVED FROM		
Operations		
Earnings before extraordinary item	$4,577	$3,065
Items not involving working capital		
Depreciation and amortization	2,167	1,955
Deferred income taxes	185	502
	6,929	5,522
Sale of fixed assets	37	377
Reduction in mortgages receivable	8	1
Reduction of intangible assets arising from sale of cheese manufacturing facilities		176
	6,974	6,076
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	4,718	4,425
Dividends paid, including tax paid on undistributed income	756	702
Dividends payable January 15, 1977	269	
Decrease in non-current portion of long term debt	121	18
Acquisition of common shares	77	
Deferred renovations	259	207
	6,200	5,352
INCREASE IN WORKING CAPITAL	774	724
WORKING CAPITAL AT BEGINNING OF YEAR	12,000	11,276
WORKING CAPITAL AT END OF YEAR	$12,774	$12,000

Consolidated Balance Sheet

Schneider Corporation

ASSETS — October 30, 1976

	1976	1975
	(in thousands)	
CURRENT ASSETS		
Cash	**$ 2,320**	
Accounts receivable	**10,777**	$12,013
Inventories (note 2)	**12,335**	12,408
Other	**805**	726
TOTAL CURRENT ASSETS	**26,237**	25,147
MORTGAGES RECEIVABLE	**55**	63
FIXED ASSETS (note 3)		
Land and improved areas, buildings, machinery and equipment	**38,690**	34,215
Less accumulated depreciation	**16,941**	15,067
TOTAL FIXED ASSETS	**21,749**	19,148
DEFERRED RENOVATIONS	**771**	512
INTANGIBLE ASSETS (note 4)		
Excess of cost over book value at dates of acquiring shares of subsidiaries	**705**	1,723
Goodwill	**1,400**	1,467
TOTAL INTANGIBLE ASSETS	**2,105**	3,190
TOTAL ASSETS	**$50,917**	$48,060

LIABILITIES — October 30, 1976

	1976	1975
	(in thousands)	
CURRENT LIABILITIES		
Bank advances		$ 2,984
Accounts payable and accrued liabilities	**$ 9,835**	9,615
Income taxes payable	**3,239**	530
Dividends payable (note 5)	**269**	
Principal due within one year on long term debt	**120**	18
TOTAL CURRENT LIABILITIES	**13,463**	13,147
LONG TERM DEBT (note 6)	**1,970**	2,091
DEFERRED INCOME TAXES	**3,197**	3,012
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 7)	**8,318**	8,322
CONTRIBUTED SURPLUS (note 7)	**395**	468
RETAINED EARNINGS	**23,574**	21,020
TOTAL SHAREHOLDERS' EQUITY	**32,287**	29,810
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$50,917**	$48,060
COMMITMENTS (notes 3 and 8)		

Approved by the Board:
F.P. Schneider/Director
D.C. Jamieson/ Director

Auditors' Report

To the Shareholders of Schneider Corporation:

We have examined the consolidated balance sheet of Schneider Corporation as at October 30, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 30, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co. Chartered Accountants, Kitchener, Ontario — December 17, 1976

Schneider Corporation

Year Ended October 30, 1976

1. SUMMARY OF ACCOUNTING POLICIES

(a) Consolidation policy

The consolidated financial statements include the accounts of the wholly owned subsidiary companies:

J. M. Schneider Inc. (formed by the amalgamation of Schneider Western Ltd. and J. M. Schneider Foods Corporation on October 26, 1975)
J. M. Schneider (B.C.) Limited

(b) Inventories

Products, which include raw material, work in process and finished goods, are valued at lower of cost and net realizable value. Since most products can be sold at any stage in their production it is not practical to segregate them into raw materials, work in progress or finished goods. Cost includes laid down material cost and manufacturing labour and certain elements of overhead to the stage of production completion. Net realizable value is based on the adjusted wholesale trading price at balance sheet date.

Supplies, which include packaging and manufacturing materials, are valued at the lower of cost and replacement cost.

(c) Fixed assets

Fixed assets are stated at cost which includes capitalized interest incurred on major projects during the period of construction. Depreciation is provided on a straight line basis to amortize the cost of the assets over their estimated useful life with estimated useful lives not to exceed certain limits.

	Maximum useful lives	Approximate annual rates of depreciation
Buildings of solid construction	25 years	4%
Buildings of frame construction and improved areas	10 years	10%
Machinery and equipment	10 years	10% to 20%
Automotive equipment	5 years	20%

Depreciation is not provided on assets under construction.

(d) Deferred renovations

Renovations of significant value but which do not warrant capitalization are deferred and written off over a period not to exceed three years commencing in the first month of usage.

(e) Intangible assets

Goodwill and the excess of cost over book value at dates of acquiring shares of subsidiaries or businesses are being amortized on a straight line basis over forty years. The company recognizes permanent impairment in the value of intangible assets by additional charges against earnings.

(f) Pension plans

The unfunded past service obligation under pension plans is charged against earnings in the year in which it is paid.

(g) Earnings per share

Earnings per share are calculated on the weighted average number of shares outstanding in the year.

2. INVENTORIES

	1976	1975
Products	**$11,259,000**	$11,574,000
Supplies	**1,076,000**	834,000
	$12,335,000	$12,408,000

3. FIXED ASSETS

	1976			1975
	Cost	Accumulated Depreciation	Net	Net
Land and improved areas	$ 856,000	$ 100,000	$ **756,000**	$ 737,000
Buildings	16,666,000	5,263,000	**11,403,000**	7,660,000
Machinery and equipment	20,122,000	11,578,000	**8,544,000**	8,358,000
Assets under construction	1,046,000		**1,046,000**	2,393,000
	$38,690,000	$16,941,000	**$21,749,000**	$19,148,000

The Board of Directors has approved future capital expenditures of $13,260,000 of which approximately $7,800,000 relates to projects now under construction.

4. INTANGIBLE ASSETS

An amount of $998,000 has been written off to reflect the permanent impairment in the value of intangibles relating to the Weidman Food Distributors division (formerly Weidman Bros. Limited, A & A Frozen Foods Ltd. and the business of Drapkin and Sons Limited) which has had a history of losses and to the canning operations of the former Schneider-Hormel Limited which have been terminated.

5. DIVIDENDS PAYABLE

The dividends payable on January 15 following the fiscal year end have, in the past, been declared subsequent to the fiscal year end. The dividends payable on January 15, 1977 of ten cents per Class B, C and common share, including a special amount of three cents per share, were declared in September, 1976, and are therefore reflected in these financial statements.

6. LONG TERM DEBT

	1976	1975
9½% Debenture, payable $2,000 monthly including principal and interest and maturing September 1, 1980	$ **90,000**	$ 109,000
8½% Debenture, with interest payable semi-annually, principal payable $100,000 annually commencing June 1, 1977 and maturing June 1, 1991	**2,000,000**	2,000,000
	2,090,000	2,109,000
Less principal included in current liabilities	**120,000**	18,000
	$1,970,000	$2,091,000

Principal due within each of the next five years is as follows:

1977	$120,000
1978	122,000
1979	124,000
1980	124,000
1981	100,000

A fixed and specific charge on certain land and buildings of Schneider Corporation and certain machinery and equipment of J. M. Schneider Inc. and a floating charge on certain assets of Schneider Corporation and J. M. Schneider Inc. have been given as security for long term debt.

7. CAPITAL STOCK

Authorized
5,501,000 24¢ Cumulative, interconvertible, participating Class B and Class C preference shares without par value (1976 and 1975)
373,627 Common shares (1975, 379,799 shares)

	1976	1975
Issued		
1,808,162 Class B preference shares (1975, 1,810,440 shares) 512,766 Class C preference shares (1975, 510,488 shares)	**$8,084,000**	$8,084,000
373,627 Common shares (1975, 379,799 shares)	**234,000**	238,000
	$8,318,000	$8,322,000

The cumulative participating Class B preference and the cumulative participating Class C preference shares are convertible one into the other at any time at the option of the holder. By virtue of The Business Corporations Act, upon any such conversion, the number of authorized and outstanding shares of each class affected by such conversion is changed accordingly. In view of the convertible nature of Class B and Class C shares the value of these shares is not prorated between the classes.

Dividends on Class C preference shares are paid out of tax paid undistributed surplus and the amounts received by the shareholders have been reduced by a 15% tax which the company is required to pay in order to create tax paid undistributed surplus. While such dividends are free of immediate income tax in the hands of the recipient, the shareholder's adjusted cost base of these shares is reduced by the amounts received.

On September 29, 1976, the directors of the company approved the cancellation of 6,172 common shares purchased on the open market for $66,000. In addition, provision has been made for the taxes of $11,000 resulting from these share acquisitions. The excess of cost over the proportionate share of book value has been charged to contributed surplus.

From time to time the company reserves Class B shares under its Stock Option Plan for issuance upon the exercise of options which may be granted at the discretion of the Board of Directors to executives and key employees of the company. Such shares are to be issued at a price not less than the greater of (a) the average of the high and low sale price for such shares as reported by The Toronto Stock Exchange for the week previous to the time of the granting of the option or

(b) 90% of the market price (as defined) of such shares at the time of granting the option. The option period may extend up to five years from date of grant and such option may be exercised in full at any time during such period.

7. CAPITAL STOCK (Continued)

Outstanding options at October 30, 1976 are as follows:

Year granted	Number of shares Granted	Number of shares Issued	Price per share	Date of Expiry
1972	16,000	4,000	$ 9.00	August 31, 1977
1973	12,000		$11.00	December 5, 1978
1974	14,000		$ 7.25	November 18, 1979

At October 30, 1976, 57,650 Class B shares were reserved for issuance under the Stock Option Plan.

The Company has also reserved 63,197 Class B shares which may be offered to employees of the company and its subsidiaries under its Employees Payroll Deduction Capital Stock Purchase Plan. Such shares are to be issued at a price not less than 90% of the market price (as defined) on the day the employee entered the plan. No options to purchase Class B shares under this plan were granted during the year.

8. COMMITMENTS

It is estimated that the present value of the unfunded past service obligation under pension plans amounts to $4,081,000. Annual payments of $421,000 commencing in 1977 are required to liquidate this obligation by December 31, 1990. During the year, $253,000 (1976 and 1975) was paid against the past service obligation.

9. PROFIT SHARING PLANS

The company's profit sharing plans were rescinded effective October 26, 1975. Profits shared with employees under these plans amounted to $387,000 in 1975.

10. ANTI-INFLATION ACT

The company is subject to the Anti-Inflation Act which provides as from October 14, 1975 for the restraint of profit margins, prices, dividends and compensation. In the opinion of management, the company is in compliance with the provisions of the Act.

11. SUBSEQUENT EVENT

Arrangements have been made for raising additional funds through the issue on February 1, 1977 of 10¾% sinking fund debentures in the amount of $9,000,000. The debentures will be secured by a trust indenture by which a first floating charge is made against the undertaking and all property and assets of the company.

12. OTHER STATUTORY INFORMATION

	1976	1975
Remuneration of directors and senior officers (as defined by The Business Corporations Act)	$433,000	$423,000
Amortization of intangible assets	87,000	91,000

Schneider Corporation

(IN THOUSANDS OF DOLLARS)	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Sales	**$254,970**	$217,018	$202,270	$177,191	$116,465	$84,163	$79,289	$70,181	$61,067	$57,902
Earnings										
Earnings before income taxes and extraordinary items	**$7,865**	$5,610	$5,871	$4,629	$3,715	$3,185	$2,878	$2,693	$2,264	$2,140
Income taxes	**$3,288**	$2,545	$2,585	$1,921	$1,708	$1,599	$1,531	$1,444	$1,195	$1,109
Earnings before extraordinary items	**$4,577**	$3,065	$3,286	$2,708	$2,007	$1,586	$1,347	$1,249	$1,069	$1,031
Earnings before extraordinary items as a percent of sales	**1.80%**	1.41%	1.62%	1.53%	1.72%	1.88%	1.70%	1.77%	1.75%	1.78%
Net earnings	**$3,579**	$3,065	$3,286	$2,708	$2,007	$1,586	$1,347	$1,249	$1,069	$1,031
Dividends paid (including tax paid on undistributed income)	**$756**	$702	$810	$727	$601	$494	$456	$299	$244	$688
Capital expenditures	**$4,718**	$4,425	$2,945	$3,733	$2,950	$3,509	$1,944	$2,413	$1,355	$1,398
Depreciation and amortization	**$2,167**	$1,955	$1,671	$1,602	$1,382	$1,175	$998	$888	$859	$776
Salaries, wages and employee benefits	**$42,084**	$34,048	$30,226	$24,718	$21,537	$18,767	$15,701	$13,953	$12,270	$11,466
Average number of employees	**2,676**	2,640	2,567	2,392	2,244	1,985	1,880	1,731	1,733	1,688
Working capital	**$12,774**	$12,000	$11,276	$9,713	$8,504	$5,618	$4,832	$4,348	$4,800	$4,283
Working capital ratio	**1.95**	1.91	1.82	1.68	2.04	2.31	2.43	2.23	2.73	3.09
Total assets	**$50,917**	$48,060	$45,741	$43,212	$31,781	$22,175	$18,012	$16,730	$14,907	$13,381
Shareholders' equity	**$32,287**	$29,810	$27,447	$24,970	$20,032	$14,452	$13,360	$12,219	$11,269	$10,428
Percent return on equity	**11.08%**	10.28%	11.97%	10.85%	10.02%	10.97%	10.08%	10.22%	9.49%	9.89%
Number of shares outstanding (thousands)	**2,695**	2,701	2,701	2,701	2,395	1,899	1,899	1,899	1,899	1,897
Number of shareholders	**2,203**	2,385	2,379	2,560	2,217	1,955	2,002	1,995	506	455
Per share statistics, in dollars										
Earnings before extraordinary items	**$1.70**	$1.13	$1.21	$1.04	$.93	$.84	$.71	$.66	$.56	$.54
Net earnings	**$1.33**	$1.13	$1.21	$1.04	$.93	$.84	$.71	$.66	$.56	$.54
Dividends paid	**$.28**	$.26	$.30	$.28	$.28	$.26	$.24	$.16	$.13	$.36
Equity	**$11.98**	$11.04	$10.16	$9.25	$8.36	$7.61	$7.04	$6.43	$5.93	$5.50

Plant and Office Locations

Schneider Corporation

HEAD OFFICE AND PLANT
321 Courtland Avenue East
Kitchener, Ontario

PLANTS (Ontario)
- Northumberland Street
  Ayr, Ontario
- R.R. 2
  Wellesley, Ontario

WAREHOUSE (Ontario)
Weidman Food Distributors
147 Hardisty Street North
Thunder Bay F, Ontario

OFFICE AND PLANT (Manitoba)
140 Panet Road
Winnipeg, Manitoba

PLANTS (Manitoba)
- O.K. Packers
  341 Dupuy Street
  Winnipeg, Manitoba
- 358 Flora Avenue
  Winnipeg, Manitoba

OFFICE AND WAREHOUSE (Manitoba)
Weidman Food Distributors
60 Bunting Street
Winnipeg, Manitoba

WAREHOUSE (Manitoba)
Weidman Food Distributors
Cor. Sutherland and Salter
Winnipeg, Manitoba

OFFICE AND PLANT (British Columbia)
4305 Dawson Street
North Burnaby, British Columbia

BRANCH OFFICES
- Valhalla Executive Centre
  300 The East Mall, Suite 301
  Etobicoke, Ontario
- 1673 Carling Avenue, Suite 112
  Ottawa, Ontario
- Treasure Island Plaza, Suite 101
  Wellington Street & Highway 401
  London, Ontario
- 210 Cedar Street, Suite 303
  Sudbury, Ontario
- 7333 Boul Des Roseraies, Suite 305
  Ville D'Anjou, Quebec
- The ABCO Centre
  3767 Howe Avenue, Suite 206
  Halifax, Nova Scotia

Schneider Corporation Board of Directors

Standing, left to right: G.A. Mackay, corporate secretary, H.W. Main, M.L. Lahn, H.G. Beben, J. Ruth Jackson and M.R. Good.
Seated, left to right: H.J. Schneider, K.G. Murray, president, F.P. Schneider, chairman of the board, D.C. Jamieson, treasurer and H.G. Schneider.

At Schneiders we count our people as our most important asset. Families such as the Anthonys, the Hurlbuts, the Krissaks, the Reists, the Schneiders, the Schanzenbachers, the Theis', the Witmers, and the Yankes all have third-generation members serving in the company — which has got to say *something* about the company in terms of its employee relations. Here, representing all the families with long service in the company, we salute the Anthony family, members of whom have served a total of 155 years.
Seated is Joe Anthony, now retired after 46 years with us. Anti-clockwise are: daughter Eileen Rooke, son Oliver, grandson Bob, son Wilbert, son Lorne and grandson Reg. Grandchildren Rick and Wendy (not shown) have also worked with us as summer students.

Schneider Corporation
Annual Report 1976

June, 1976
Kitchener, Ontario

TO OUR SHAREHOLDERS:

First-half results for the twenty-nine weeks ended May 15, 1976, show increases of 24.9% in dollar sales and 70.6% in net earnings compared with the first twenty-eight weeks of our 1975 fiscal year.

These sales reflect both a higher level of livestock costs and an increase in market share for virtually all of our product lines. This has created a high utilization of our capacity for processed meats.

To achieve higher productivity and create needed additional capacity requires large inputs of capital and good planning. Anti-Inflation Legislation, as recently amended, provides no effective incentive for improvements to productivity and discourages investment in more capacity by further reducing allowable earnings.

The reduced profits of our second quarter are an indication of how rapidly things can change. It is also ample evidence against simple projections as reliable estimates of future earnings.

We remain confident, however, of achieving best ever sales and earnings for your company in fiscal 1976.

Fred P. Schneider
Chairman of the Board

Schneider Corporation

321 COURTLAND AVENUE EAST, P.O. BOX 130
KITCHENER, ONTARIO, CANADA N2G 3X8

2nd INTERIM REPORT

29 WEEKS

OCTOBER 26, 1975 - MAY 15, 1976

1976

SCHNEIDER CORPORATION

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	Twenty-Nine Weeks Ended May 15 1976	Twenty-Eight Weeks Ended May 10 1975	Twelve Weeks Ended May 15 1976	Twelve Weeks Ended May 10 1975
	(in thousands)		(in thousands)	
Sales	$ 132,473	$ 106,092	$ 55,790	$ 45,539
* Earnings before income taxes	3,962	2,236	1,387	1,492
Income taxes	1,826	984	667	657
Net earnings	2,136	1,252	720	835
Earnings per share	79¢	46¢	27¢	31¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

	Twenty-Nine Weeks Ended May 15 1976	Twenty-Eight Weeks Ended May 10 1975
	(in thousands)	
Working Capital Derived From		
Operations		
Net earnings for the period	$ 2,136	$ 1,252
Items not involving working capital		
Depreciation and amortization	1,178	1,046
	3,314	2,298
Sale of fixed assets	13	—
Decrease in other assets	6	17
	3,333	2,315
Working Capital Applied To		
Additions to fixed assets, deferred renovations and fixed assets under construction	2,919	1,481
Dividends, including tax paid on undistributed income	378	432
Decrease in non-current portion of long term debt	113	10
Acquisition of Common Shares of Schneider Corporation	37	—
	3,447	1,923
INCREASE (DECREASE) IN WORKING CAPITAL	(114)	392
WORKING CAPITAL AT BEGINNING OF PERIOD	12,000	11,581
WORKING CAPITAL AT END OF PERIOD	$ 11,886	$ 11,973

* The company is subject to the Anti-Inflation Act which provides, as from October 14, 1975, for the restraint of profit margins, prices, dividends, and compensation in Canada.

In the opinion of management. the provisions of this Act have been properly reflected in the financial statements for the twenty-nine weeks. Ending May 15, 1976.